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Colombia

Coffee

Semi-Annual

2006

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Report Highlights:

Coffee Production is expected to reach 12.2 million bags (60 kg) in 2006/07, 250,000 bags higher than a year before. New highly productive coffee areas in the south are increasingly gaining importance with respect to total production. Exports will increase to 11.2 million bags helped by good international prices and larger exports of value-added coffee products. Coffee imports will be reduced by 50,000 bags since the domestic market will be supplied by an increase in low-quality coffee production. Stocks will recover to over 1.4 million bags representing 48 days of exports. The Colombian - U.S. free trade agreement, when implemented, will allow new value-added and coffee-containing products to enter duty free to the U.S. market.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Semi-Annual Report
Bogota [CO1]
[CO]

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Executive Summary

In 2006/07, Colombia's coffee production is forecast to increase by 250,000 bags (60 kg) to 12.2 million bags compared to 2005/06. New areas planted and more productive coffee plantations due to adoption of better production technologies are the major reasons for the increase in production. In addition, the 2006/07 crop is expected to have less problems with cherry borer that affected 2005/06 crop. This will result in a higher quality crop overall compared to last year.

In 2006/07, Colombia is projected to increase exports to 11.2 million bags from 10.9 million bags in 2005/06, a 3 percent increase. Despite the strength of the peso against the dollar, international prices are expected to continue to stimulate coffee exports. The United States continues to be the largest import market for Colombian coffee. Increasing Colombian exports of instant coffee and value-added coffee products, such as organic coffee, is the Colombia's Coffee Producers Association –FEDECAFE's- primary focus. Imports will decrease by 50,000 bags, since locally produced coffee of lower quality for internal consumption is increasing.

Production

Colombia's coffee production, according to FEDECAFE numbers, reached 11.9 million bags in 2005/06, which represented an increase of 421,000 bags compared with the year before. The increase in production was due mainly to two factors: first, tree renovation with higher tree densities in the traditional central coffee zone, and second, the increased production in the Huila and southern region where the altitude and weather conditions are ideal for producing high-quality coffee. These new producing areas are offsetting production lost in the central coffee region, which has lost planted area to ecotourism.

Colombian coffee production in 2006/07 is expected to increase by approximately 250,000 bags to 12.2 million bags. FEDECAFE's renovation program, better management practices, and increased yields are the reasons for the expected increase in production. Coffee production in the central coffee region could be affected by the shortage of labor and overall rising production costs.

FEDECAFE has increased its emphasis on increasing production of high-quality coffee and value-added coffee products that benefit from Colombia's high-quality coffee image recognized throughout the world. In addition, FEDECAFE is promoting cultivation of supplementary crops for small producers, 90 percent of which have less than 5 hectares, to diversify their income and improve coffee quality and productivity.

Although there is no updated census on coffee production areas in Colombia, (the last census was conducted in 1997) the southern coffee region has gained importance in total coffee production and it is likely that in the near future will lead Colombian in coffee production. The reason for this shift in production area is lower labor and land costs compared to the central coffee region. FEDECAFE is planning to update the coffee census that is expected to prove that the coffee sector is significantly changing in Colombia.

Consumption

Colombia's coffee consumption is expected to maintain its current relatively low level of consumption (compared to other producing countries). Increases in local coffee consumption are generally due to expanding consumption of products containing coffee. Non-FEDECAFE, private coffee companies are introducing instant coffee and coffee containing products to

stimulate expanding consumption. FEDECAFE has started selling locally, through its Juan Valdez coffee shops, high-quality coffee, traditionally devoted exclusively for export.

Trade

In 2005/06, Colombia reduced exports to 10.84 million bags from 11.03 million bags, 192,000 bags lower (1.7%) from the year before. IN 2005 (CY), the United States imported 35 percent of total Colombian coffee exports and continues to be the single largest market for Colombian coffee. Colombia exported to the United States 3.9 million bags in 2005. Japan and Germany were the second and third largest markets for Colombian coffee exports amounting to 1.6 million bags and 1.5 million bags respectively, together representing 27 percent of exports. Exports for 2006/07 marketing year are expected to grow to 12.2 million bags, 3.3 percent higher than 2005/06 exports.

Colombian export value has benefited from the strong high-quality coffee recognition and the short supply of high-quality coffee. In 2005/06 international prices have remained above \$1.00 for the second consecutive year and, Colombian coffee received on average \$1.15 per pound. FEDECAFE will continue promoting greater differentiation of high-quality coffee. Colombia's exports of instant coffee are increasing, which the United States is the largest importer.

More coffee-grower cooperatives are using future markets and selling greater quantities of coffee on behalf of coffee growers. Cooperatives sell the coffee at a set price and private exporters, not FEDECAFE, export the coffee. This mechanism has helped growers receive higher prices, while private exporters have gained greater market share in the export market. Private exports represented 71 percent of Colombian coffee exports in 2005/06 compared to FEDECAFE's 29 percent.

Colombian coffee imports according to preliminary data from the National Statistics Department (DANE) reached 450,000 bags in 2005/2006, 50,000 bags less than the year before. Coffee imports are supplying local market needs for lower-quality coffee. Peru and Ecuador have been the main suppliers.

Stocks

An estimated 1.27 million bags were held in stocks at the end of 2005/06. This amount represents one-and-half months of exports. Increased production and lower exports increased stocks by 343,000 bags. A second consecutive year increase in stocks is expected in 2006/07 due to a greater forecast rise in production compared to the expected increase in exports.

Policy

International Coffee Organization ICO

One year after the United States joined the ICO, authorities at FEDECAFE see positive results in monitoring coffee quality in international markets. This has helped FEDECAFE apply quality recognition programs and obtain premium prices. At the same time, FEDECAFE resources devoted to promoting consumption and market development are expected to expand coffee consumption in many nontraditional export markets like China.

U.S. – Colombia Free Trade Agreement

The free trade agreement negotiated between the United States and Colombia will have no impact on duties for coffee beans, since green coffee entering the United States currently pays no tariff. The Agreement does, however, provide for the immediate reduction of duties

on coffee substitutes and preparations, essences, extract or concentrates with a basis of coffee. Some of these products will be assigned TRQs, for instance sugar-containing products with coffee flavor.

Support

Although international prices have remained high, the Colombian government has kept guaranteeing a minimum price for coffee growers valued at 360,000 pesos (\$157.3) per 125 kg bag, 20,000 pesos more than paid in 2005/06. The government, however, has not made any payment since 2004 because market prices have been above the trigger price. Part of the funds saved could be now used to purchase price and exchange rate derivatives for hedging against sudden international exchange rate fluctuations. With this program approved by the Ministry of Agriculture, the government hopes to develop a greater use of futures markets by growers to sell their crops and to better understand the benefits of these financial instruments.

Prices

The price paid to coffee growers is linked to international prices. Under this scheme, grower income has benefited despite the increased peso strength against the U.S. dollar. Since December 2004, the international price for coffee has been above \$1.0 per pound and the average price paid to Colombian growers in 2005/06 was \$1.14, while 2 years ago it was only \$0.77 per pound.

Tables

Colombia

Coffee, Green

	2005	Revised		2006	Estimate		2007	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		10/2004	10/2004		10/2005	10/2005		10/2006	10/2006	MM/YYYY
Area Planted	765	765	765	750	750	770	750	750	780	(1000 HA)
Area Harvested	620	620	620	610	610	630	610	610	640	(1000 HA)
Bearing Trees	2800	2800	2800	2800	2800	2800	2800	2800	2900	(MILLION TREES)
Non-Bearing Trees	1030	1030	1030	1030	1030	1050	1030	1030	1070	(MILLION TREES)
Total Tree Population	3830	3830	3830	3830	3830	3850	3830	3830	3970	(MILLION TREES)
Beginning Stocks	1131	1131	1131	829	829	931	839	839	1274	(1000 60 KG BAGS)
Arabica Production	11430	11430	11532	11550	11550	11953	11600	11600	12200	(1000 60 KG BAGS)
Robusta Production	0	0	0	0	0	0	0	0	0	(1000 60 KG BAGS)
Other Production	0	0	0	0	0	0	0	0	0	(1000 60 KG BAGS)
Total Production	11430	11430	11532	11550	11550	11953	11600	11600	12200	(1000 60 KG BAGS)
Bean Imports	0	0	0	0	0	0	0	0	0	(1000 60 KG BAGS)
Roast & Ground Imports	500	500	500	500	500	450	500	500	400	(1000 60 KG BAGS)
Soluble Imports	0	0	0	0	0	0	0	0	0	(1000 60 KG BAGS)
Total Imports	500	500	500	500	500	450	500	500	400	(1000 60 KG BAGS)
Total Supply	13061	13061	13163	12879	12879	13334	12939	12939	13874	(1000 60 KG BAGS)
Bean Exports	10352	10352	10352	10150	10150	10130	10150	10150	10470	(1000 60 KG BAGS)
Rst-Grnd Exp.	100	100	100	100	100	100	100	100	100	(1000 60 KG BAGS)
Soluble Exports	580	580	580	590	590	610	600	600	630	(1000 60 KG BAGS)
Total Exports	11032	11032	11032	10840	10840	10840	10850	10850	11200	(1000 60 KG BAGS)
Rst,Ground Dom. Consum	940	940	940	940	940	950	940	940	950	(1000 60 KG BAGS)
Soluble Dom. Cons.	260	260	260	260	260	270	260	260	270	(1000 60 KG BAGS)
Domestic Use	1200	1200	1200	1200	1200	1220	1200	1200	1220	(1000 60 KG BAGS)
Ending Stocks	829	829	931	839	839	1274	889	889	1454	(1000 60 KG BAGS)
Total Distribution	13061	13061	13163	12879	12879	13334	12939	12939	13874	(1000 60 KG BAGS)
Exportable Production	10230	10230	10332	10350	10350	10733	10400	10400	10980	(1000 60 KG BAGS)

Export Trade Matrix

Country

Colombia

Commodity

Coffee, Green

Time Period

Jan-Dec Units: 1000 60 kg-bags

Exports for:

2005 2006

U.S.

3948 U.S.

Others

Others

Japan

1610

Germany

1471

Belgium

688

Canada

675

Italy

414

United Kingdom

374

Sweden

258

Spain

215

South Korea

178

Finland

161

Total for Others

6044 0

Others not Listed

1372

Grand Total

11364 0

Import Trade Matrix

Country

Colombia

Commodity

Coffee, Green

Time Period	Jan-Dec	Units:	1000 60 kg-bags
Imports for:	2005		2006
U.S.	0	U.S.	
Others		Others	
Ecuador	307		
Peru	65		
Vietnam	7		
Total for Others	379		0
Others not Listed			
Grand Total	379		0

Prices Table

Country

Colombia

Commodity

Coffee, Green

Prices in	Col pesos	per uom	70 Kg bag
Year	2005	2006	% Change
Jan	416,524	524,551	26%
Feb	483,369	474,144	-2%
Mar	558,516	445,223	-20%
Apr	519,012	468,394	-10%
May	501,801	459,641	-8%
Jun	464,125	449,903	-3%
Jul	413,232	452,101	9%
Aug	409,658	461,120	13%
Sep	383,551	442,238	15%
Oct	432,601		-100%
Nov	449,119		-100%
Dec	449,205		-100%
Exchange Rate	2288.13	Local Currency/US \$	
Date of Quote	11/8/2006	MM/DD/YYYY	